

## Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 NEA-10 ISO-00 FEA-01 ERDA-05 AID-05

CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00 FPC-01 H-01

INR-07 INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04

USIA-06 OES-06 SP-02 SS-15 STR-04 TRSE-00 ACDA-07

OPIC-03 IGA-02 /115 W

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P R 111230Z DEC 76

FM AMEMBASSY ALGIERS

TO SECSTATE WASHDC PRIORITY 5568

INFO AMEMBASSY LONDON

C O N F I D E N T I A L ALGIERS 2885

E.O. 11652: GDS

TAGS: ENRG, BENC AG

SUBJECT: ENERGY: ALGERIAN INTENTION TO WITHDRAW PRITCHARD-  
RHODES CONTRACT FOR LNG PLANT AT SKIKDA

1. BACKGROUND: PRITCHARD-RHODES LIMITED, AN AMERICAN-OWNED BRITISH COMPANY, HAS BEEN WORKING ON AN LNG PLANT AT SKIKDA (SKIKDA 4) SINCE 1971. COMPANY HAS HAD MANY TROUBLES, UNFORESEEN EXPENSES, ETC. AND IS NOW SOME TWO-AND-A-HALF YEARS BEHIND SCHEDULE. ORIGINAL COMPLETION DATE WAS SEPTEMBER 74. COMPANY NOW PREDICTING IT WILL BE READY NEXT SUMMER. COMPANY HAS ADDITIONAL CONTRACTS FOR CONSTRUCTION TWO MORE LINES GK LINES 5 AND 6) AT SAME SITE. WORK HAS ACTUALLY BEGUN ON THEM AND MUCH OF MATERIAL FOR THEIR CONSTRUCTION ALREADY IN ALGERIA.

2. MANAGING DIRECTOR OF COMPANY, DONALD D. DIXON, AN AMERICAN, CAME TO SEE US SEVERAL DAYS AGO TO BRIEF US ON PRESENT STATUS OF PROJECT. BRIEFLY, SENIOR OFFICIALS OF PARENT COMPANY, INTERNATIONAL SYSTEMS CONTROL OF HOUSTON, INCLUDING PRESIDENT KENNEALY, ARRIVING HERE DECEMBER 11 TO MEET WITH GHOZALI OF SONATRACH AND DISCUSS FUTURE OF CONTRACT. THEY HAVE RECEIVED TELEGRAM FROM GHOZALI SAYING PROGRESS TO DATE NOT SATISFACTORY AND SONATRACH PLANNING WITHDRAW CONTRACT AND AWARD IT TO SOMEONE ELSE. DIXON ASCRIBED DELAYS AND INCREASED COSTS  
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OF PROJECT AS DUE TO A NUMBER OF FACTORS, ABOUT 25

PERCENT OF WHICH HE LAID TO PRITCHARD-RHODES ITSELF, WHICH HAS HAD MANAGEMENT PROBLEMS AND HAS MADE NUMBER OF ENGINEERING MISTAKES IN MOUNTING EQUIPMENT. HE HOPEFUL THAT SATISFACTORY ARRANGEMENTS TO CONTINUE CONTRACT COULD BE WORKED OUT, BUT SAYS COMPANY WILL LOSE NO SLEEP IF THEY ARE NOT. WE SENSE SOME COMBAT FATIGUE HERE.

3. DURING CONVERSATION WITH MINISTRY OF INDUSTRY AND ENERGY ABDESSELAM ON DECEMBER 7, HE MENTIONED PROBLEM AND HE SAID PRITCHARD-RHODES UNABLE TO MEET ITS COMMITMENTS AND ALGERIANS HAD GIVEN UP ON THEM. HE SAID COMPANY DID NOT HAVE RESOURCES TO MANAGE PROJECT OF THIS SIZE. I SAID WE GATHERED THAT COMPANY DID INDEED HAVE MANAGEMENT PROBLEMS BUT FAULT NOT ALL THEIRS. ALGERIA WAS VERY DIFFICULT CLIMATE IN WHICH TO WORKK AND PRITCHARD, IN COMMON WITH MANY OTHER COMPANIES, HAD HAD MUCH TROUBLE WITH SUCH THINGS AS EXIT PERMITS, CUSTOMS AND SHORTAGES OF BASIC MATERIALS SUCH AS AGGREGATE. IT WOULD COST ALGERIANS MORE TO CHANGE HORSES NOW. ABDESSELAM ADMITTED THAT ALGERIANS CLIMATE NOT EASY, BUT NOTED THAT OTHER COMPANIES MANAGED.

4. HAD FULLER DISCUSSION OF MATTER WITH GHOZALI NIGHT OF DECEMBER 8. HE REVIEWED HISTORY OF PROJECT'S MOVABLE COMPLETION DATES AND SAID SONATRACH HAD LOST CONFIDENCE IN COMPANY'S ABILITY TO COMPLETE PROJECT SATISFACTORILY. VERY LITTLE REMAINED TO BE DONE ON LINE 4, BUT THEY WERE NOT EVEN SURE COMPANY COULD DO THAT SATISFACTORILY AND GIVE THEM A WORKING UNIT. (WE GATHER FROM DIXON THAT HIS DOUBTS NOT UNFOUNDED.) HE DID NOT ALLUDE TO ENGINEERING ERRORS BUT APPARENTLY HAD THEM IN MIND. HE SAID SITUATION WITH REGARD LINES 5 AND 6 LESS DRASTIC BECAUSE CONSTRUCTION ONLY BEGINNING THERE AND ANOTHER COMPANY COULD TAKE OVER WITHOUT UNDUE DIFFICULTY. (BOTH HE AND ABDESSELAM INDICATED THAT CONTRACT WOULD GO TO ANOTHER AMERICN COMPANY AND WE SUSPECT IT WILL BE PULLMAN-KELLOGG.)

5. I AGAIN RAISED QUESTION OF INCREASED COST WHICH  
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WOULD RESULT FROM CHANGE OF CONTRACTORS. GHOZALI SAID IT WAS TRUE IT WOULD COST MORE, BUT AT LEAST THEY WOULD BE SURE OF HAVING OPERATING PLANT. IN LONG RUN, IT WOULD COST THEM LESS THAN CONTINUING WITH PRITCHARD.

6 COMMENT: THIS STORY NOT OVER YET, BUT IT HIGHLIGHTS BOTH THE DIFFICULTIES OF DOING BUSINESS IN ALGERIA AND FACT THAT COMPANIES UNDERTAKING MAJOR PROJECTS

OF THIS NATURE NEED TO HAVE ADEQUATE STRUCTURE  
AND RESOURCES FOR TASK. WE GATHER PRITCHARD DID NOT.  
SUSPECT, HOWEVER, THAT CRISIS WOULD NEVER HAVE  
OCCURRED HAD NOT ISC MILKED CONTRACT OF \$15 MILLION  
EARLY ON IN GAME. THIS CONVINCED ALGERIANS ISC NOT  
SERIOUS ABOUT PROJECT AND UNDERMINED THEIR CONFIDENCE  
IN PRITCHARD.

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